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MEMORANDUM FOR:

DDC

Attached is a general assessment of the Soviet aid program in India that may be useful for briefing other LDCs interested in the experiences of a major recipient of Soviet aid.

Office of Economic Research

Attachment:

As stated

5 December 1973

(DATE)

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(5 Dec 73)

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Indian-Soviet Economic Relations:
No Great Bonanza for India

1. India has received commitments of over \$1.6 billion from the USSR (all committed before 1967), but less than two-thirds of these commitments have actually been delivered.

2. Part of the undelivered aid (possibly more than one-half) has never been allocated to specific uses, mostly because Moscow has insisted that the credits be used for creating additional heavy industrial plants in India. Delhi has insisted that these outstanding credits be diverted to cover purchases of industrial raw materials (newsprint, kerosene, etc.) that are in critically short supply in India. Although at the end of Brezhnev's recent visit it was announced that the Soviets would expand their exports of these goods to India, there was no mention that they would be provided as aid.

3. Aid deliveries have petered out in recent years, down to about \$25 million a year from \$100 million annually in the mid-60s.

4. Meanwhile, India's obligation to pay principal and interest on its cumulating debt grows. It is estimated that service on its economic aid debt to the USSR will be in the range of \$50 million to \$75 million in 1973.

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5. The Indians now bear the cost of carrying excess capacity resulting from poor initial planning. Most major Soviet built plants in India operate at only partial capacity and incur sizable annual losses. Most of them are high cost producers whose productivity is low. Examples include the Heavy Machine Building Plant at Ranchi (for which the Indians incurred a \$50 million debt). By 1969, the cumulative loss on this plant had exceeded the amount of the Soviet aid. The Coal Mining Machinery Plant at Durgapur also had incurred losses equivalent to the almost \$30 million of Soviet aid by 1969. Even the Bhilai Steel Mill, one of the more successful Soviet built plants, still operates at a loss and was operating 25% below capacity as recently as 4 years ago.

6. The recently concluded agreements between India and the USSR, that were accompanied by much fanfare, provided little that was new and nothing that will significantly expand the rate of India's economic development.

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